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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Access Charge Reform for Incumbent Local)	CC Docket No. 98-77
Exchange Carriers Subject to Rate-of-Return)	
Regulation)	

COMMENTS OF LEXCOM TELEPHONE COMPANY

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SUMMARY

The FCC's* major cost assumption underlying access charge reform, as proposed in the *Notice*, that rate-of-return ILECs incur costs in the same manner as price cap ILECs is false. Small and rural ILECs do not have the customer density that price cap ILECs have, which forces small ILECs to incur much greater investments and expenses to serve an identical number of customers. The FCC's access charge reform proposal will lead to subscriber line increases that could well violate Section 254(b) of the Telecommunications Act of 1996 by increasing the price of local service for rural customers beyond what is comparable for urban customers. In addition, imposition of PICCs could further exacerbate the risk to universal service in rural areas and could allow some IXCs to use ILEC networks without paying reasonable rates for such usage. Access charge reform, as proposed, will shift more costs to originating access, which, in turn, will make rural ILECs even more vulnerable to cream-skimming competitors. The imposition of the same complex rate structures as are now used by price cap ILECs will create unreasonable and unfair regulatory burdens on small ILECs. Furthermore, the FCC has failed to justify removal of the residual, transport interconnection charge.

In addition, the FCC's proposal to modify the allocation of general support facilities costs is unreasonable in that it would reduce interstate revenues for Lexcom by approximately \$2 per customer, per year. Accordingly, any change in the GSF allocator should be phased-in over three

* All abbreviations are explained in the body of the pleading.

years. The FCC's proposal to remove marketing costs from interstate access rates is also not justified by the facts and would result in an unlawful subsidy of IXC's by local ratepayers.

The FCC has ignored the rapid growth of Internet traffic, which causes costs to be shifted to local ratepayers, creating further upward pressure on local rates. In addition, the current exemption from access charges for interstate voice traffic, using the Internet protocol, flouts the non-discrimination requirements of the Communications Act of 1934, as amended. The FCC also has failed to consider whether there is any real need to continue to burden small, rural ILECs with such complex regulation of their interstate rates, when, as some Commissioners have recognized, there has been very little complaint of unreasonable rates despite the lack of rate regulation of small ILECs in some states. The *Notice* does not provide any pricing flexibility for rural carriers and, such absence creates additional market vulnerability for rural ILECs. Finally, the FCC has failed to address the impact of its access charge reform proposal on universal service.

The record cannot support access charge reform as proposed by the FCC. Accordingly, the FCC should not adopt the rules proposed in the *Notice*. Rather, the Commission should release a notice of inquiry into the overall rate deregulation of small and rural ILECs, incorporating the record in this current docket into the new inquiry. In addition to access charge reform, the FCC should consider the following issues: the type of rate deregulation that is appropriate for rural ILECs; the impact of increased Internet traffic, including Internet telephony, on rural ILECs and their customers; the level of pricing flexibility necessary and appropriate for small ILECs to avoid unfair "cherry picking" by competitors; and the impact of any proposed

regulatory changes on universal service. The questions on universal service to be addressed should include the further definition of what are comparable rates for comparable service provided to rural and urban customers. Only through such an all-encompassing proceeding can the FCC ensure that rural ILECs are positioned to compete fairly and vigorously in the interstate access market, while ensuring that the congressional universal service requirements are fulfilled.

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COMMENTS OF LEXCOM TELEPHONE COMPANY

Lexcom Telephone Company ("Lexcom") respectfully submits the following comments in response to the Federal Communications Commission's ("FCC") Notice of Proposed Rulemaking in the above-captioned proceeding.¹ Lexcom is a small ILEC serving the city of Lexington and its surrounding area, in Davidson County, North Carolina. Lexcom provides state-of-the-art telephone service to 32,900 business and residence access lines, as well as exchange access services to a variety of interexchange carriers ("IXCs"). In addition, Lexcom's affiliated companies offer long distance services, Internet service, commercial mobile radio services ("CMRS") and cable television service to customers in this area. Lexcom and its affiliates have 128 employees working to meet the needs of their customers.

The FCC has proposed access charge reform for incumbent local exchange carriers ("ILECs") that are rate-of-return regulated. The FCC declaims its mission to "deliver the benefits of competition to consumers throughout the country, and not only to those living in the

¹ *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of Return Regulation*, Notice of Proposed Rulemaking, CC Docket No. 98-77, FCC 98-101 (rel. June 4, 1998) ("Notice").

most densely populated areas” and proposes to mobilize the forces of competition in rural America through access charge reform.² The specific motivation for this docket is the concerns of smaller, rate-of-return-regulated ILECs that existing rate structures and levels make their largest customers vulnerable to new entrants. Hence, the FCC proposes to allow these ILECs to move to more economically efficient rates.³

The FCC proposes to allow rate-of-return ILECs to follow in the reform direction taken by price cap ILECs earlier.⁴ While recognizing that rate-of-return ILECs often have higher costs than price cap ILECs due to longer loops or lower economies of scale, the FCC states its fundamental belief that both types of ILECs “incur costs in the same manner.”⁵ Absent a showing of differences between rate-of-return and price cap ILECs that require different rules to “achieve the goal of fostering an efficient, competitive marketplace,” the FCC proposes to amend the access charge rules for rate-of-return ILECs similarly to the rules applicable to price cap ILECs.⁶ After doing this, the FCC believes that it will have laid a strong foundation for further proceedings that will address “the very difficult question[s]” of giving rate-of-return ILECs pricing flexibility and alternative forms of regulation.⁷

² *Id.* at ¶1.

³ *Id.*

⁴ *Access Charge Reform* CC Docket No. 96-262, First Report and Order, 12 FCC Rcd 15982 (1997) (“*Access Charge Reform Order*”); Order on Reconsideration, 12 FCC Rcd 10119 (1997); *appeal pending sub nom.*, *Southwestern Bell Tel. Co. v. FCC*, No. 97-2618 (and consolidated cases), (8th Cir. argued Jan. 15, 1998); Second Order on Reconsideration, 12 FCC Rcd 16606 (1997).

⁵ *Notice* at ¶3.

⁶ *Id.*

⁷ *Id.* at ¶5.

INTRODUCTION

Lexcom agrees wholeheartedly with those Commissioners that have stated that the burdensome and complex regime for regulating small ILEC rates is unnecessary and impedes the efforts of small ILECs to become more economically efficient and remain competitive. The existing access charge rules create artificial incentives for competitors to enter small ILEC markets in order to “cream-skim” large business or government customers, rather than compete for all customers – both large and small – that are currently served by small ILECs. Many of these competitors, such as MCI/WorldCom, Sprint, and AT&T/TCI have far more financial resources than small ILECs, but are exempt from the complex rate regulation currently imposed on very small ILECs.

Lexcom must oppose the current access charge reform proposal for several reasons. The FCC has erroneously assumed that all ILECs incur costs in the same manner, ignoring the fact that small or rural ILECs do not have the customer density possessed by the price cap ILECs. The FCC’s access charge reform proposal will lead to subscriber line increases that could well violate Section 254(b) of the Telecommunications Act of 1996⁸ by increasing the price of local service for rural customers beyond what is comparable for urban customers. In addition, imposition of primary interexchange carrier charges (“PICCs”) could further exacerbate the risk to universal service in rural areas and could allow some IXC to use ILEC networks without paying reasonable rates for such usage. Access charge reform, as proposed, will shift more costs

⁸ 47 U.S.C. §254(b).

to originating access, which, in turn, will make rural ILECs even more vulnerable to cream-skimming competitors. The imposition of the same complex rate structures as are now used by price cap ILECs will create unreasonable and unfair regulatory burdens on small ILECs. Furthermore, the FCC has failed to justify removal of the residual, transport interconnection charge (“TIC”).

In addition, the FCC’s proposal to modify the allocation of general support facilities (“GSF”) costs is unreasonable in that it would reduce interstate revenues for Lexcom by approximately \$2 per customer, per year. Accordingly, any change in the GSF allocator should be phased-in over three years. The FCC’s proposal to remove marketing costs from interstate access rates is also not justified by the facts and would result in an unlawful subsidy of IXC by local ratepayers.

Lexcom further submits that, in addition to the deficiencies cited above (and discussed below), the FCC has ignored several major issues that will ensure that any access charge reform, which is adopted by the FCC, is obsolete before it is even published in the Federal Register. The FCC has ignored the rapid growth of Internet traffic, which causes costs to be shifted to local ratepayers, creating further upward pressure on local rates. In addition, the current exemption from access charges for interstate voice traffic, using the Internet protocol, flouts the non-discrimination requirements of the Communications Act of 1934, as amended.⁹ The FCC also has failed to consider whether there is any real need to continue to burden small, rural ILECs

⁹ 47 U.S.C. §202.

with such complex regulation of their interstate rates, when, as some Commissioners have recognized, there has been very little complaint of unreasonable rates despite the lack of rate regulation of small ILECs in some states. The *Notice* does not provide any pricing flexibility for rural carriers and such absence creates additional market vulnerability for rural ILECs. Finally, the FCC has failed to address the impact of its access charge reform proposal on universal service.

The record cannot support access charge reform as proposed by the FCC. Accordingly, the FCC should not adopt the rules proposed in the *Notice*. Rather, the Commission should release a notice of inquiry into the overall rate regulation of small and rural ILECs, incorporating the record in this current docket into the new inquiry. In addition to access charge reform, the FCC should consider the following issues: the type of rate regulation that is appropriate for rural ILECs; the impact of increased Internet traffic, including Internet telephony, on rural ILECs and their customers; the level of pricing flexibility necessary and appropriate for small ILECs to avoid unfair “cherry picking” by competitors; and the impact of any proposed regulatory changes on universal service. The questions on universal service to be addressed should include the further definition of what are comparable rates for comparable service between rural and urban customers. Only through such an all-encompassing proceeding can the FCC ensure that rural ILECs are positioned to compete fairly and vigorously in the interstate access market, while ensuring that the congressional universal service requirements are fulfilled.

RURAL ILECs INCUR COSTS DIFFERENTLY FROM PRICE CAP ILECs

The FCC premises access charge reform for rate-of-return ILECs on an assumption that rate-of-return ILECs incur costs in the same manner as price cap ILECs.¹⁰ That assumption is false. Telephony is a capital-intensive business that is greatly affected by customer density. ILECs that serve areas with high levels of customer density have a radically different cost structure than ILECs that serve areas with low levels of customer density. Rural ILECs, by definition, have much lower customer density than price cap ILECs. This lower customer density requires rural ILECs to incur significantly higher costs than price cap ILECs to serve an identical number of customers.

These conclusions are supported by hard data. Lexcom has taken data for the RBOCs and other reporting ILECs from the FCC's *1997 Preliminary Statistics of Common Carriers*¹¹ and compared them to similar data for Lexcom. Lexcom calculated ratios of customers (access lines) per sheath or route mile of both metallic wire and fiber cable ("outside plant") for the two groups of large ILECs and for Lexcom.¹² Next Lexcom calculated various financial measures¹³

¹⁰ Notice at ¶3.

¹¹ Common Carrier Bureau, *1997 Preliminary Statistics of Common Carriers* (May 1997) ("PSOCC"), Tables 2.9 and 2.10.

¹² Lexcom does not keep records on how many miles of copper wires Lexcom deploys in its local network. Lexcom does not have any business need to keep such records, nor are there any applicable regulations requiring that such records be maintained. Lexcom is not a borrower from the Rural Utilities Service ("RUS") of the United States Department of Agriculture, which requires that such records be kept. Lexcom has, however, obtained similar data from other North Carolina ILECs that do borrow from the RUS. Lexcom has used these data to estimate the route miles of outside plant in its network. The details are shown in Appendix "A" hereto.

The RUS reports ILEC outside plant data in route miles. The FCC's Common Carrier Bureau reports outside plant data for the RBOCs and other reporting ILECs in sheath miles because their relatively dense networks often run

per access line and per mile of outside plant. Finally, Lexcom calculated the ratios of various plant and financial measures per 100 customers. These ratios, which are contained in Appendix "B" hereto, show the tremendous impact that customer density has on an ILEC's cost of providing service and its available revenues to support its network. Rural ILECs have to spend significantly more plant investment and overall expense dollars than price cap ILECs to serve an equal number of customers. Therefore, Rural ILECs do not incur costs in the same manner as the price cap ILECs.

Collectively the RBOCs serve more than 131,479,000 switched access lines (or customers). The other reporting ILECs serve, on a collective basis, in excess of 31,296,000 access lines. Lexcom served 32,900 customers in 1997. To serve their customers, the RBOCs deploy approximately 2.73 million sheath miles of outside plant. The other reporting ILECs deploy approximately 1.28 million sheath miles of outside plant. Lexcom estimates that it has between 2632 and 3009 route miles of outside plant.

The calculation of ratios of miles of outside plant per 100 customers disproves the FCC's major cost assumption underlying access charge reform. The RBOCs deploy 2.08 sheath miles of outside plant, on average, in order to serve 100 customers. The other reporting ILECs must deploy almost twice as much outside plant (4.10 sheath miles) in order to serve 100 customers. Lexcom, which has the benefit of serving a rather compact territory versus many other rural ILECs, still must deploy between 8.0 and 9.15 route miles of outside plant to serve 100

¹³ Telephone plant in service (Account 2001) ("TPIS"), Total plant-specific operations expenses (summary Account 650) and Total operating expenses (summary Account 720). *See id.*

Lexcom, which has the benefit of serving a rather compact territory versus many other rural ILECs, still must deploy between 8.0 and 9.15 route miles of outside plant to serve 100 customers, or around four times the amount of outside plant deployed by the average RBOC. In other words, lower customer density requires rural ILECs, such as Lexcom, to deploy substantially more capital in order to serve an identical number of customers. The following table illustrates this fundamental difference.

Table 1

Carrier or Group of Carriers	Telephone Plant in Service per 100 Customers	Total Plant-Specific Operations Expenses per 100 Customers	Total Operating Expenses per 100 Customers
RBOCs	\$180,952	\$11,933	\$45,430
Other Reporting ILECs	\$210,550	\$14,420	\$50,341
Lexcom	\$224,356	\$10,748	\$50,572

Sources: 1997 Preliminary Statistics of Common Carriers, Tables 2.9 and 2.10, Lexcom Part 32 accounts.

Because of their lesser customer densities than the RBOCs, the other reporting ILECs require a capital investment that is more than 16% greater than the RBOCs. Lexcom must deploy almost 24% more capital than the RBOC average to serve an identical number of customers. The advantages of customer density also exist when one considers expenses. The RBOCs have a 17% cost advantage over the other reporting ILECs on total plant-specific operations expenses per 100 customers. Lexcom's total plant-specific operations expenses are slightly less than the RBOC average, which suggests that Lexcom's management is efficient and that any overall cost disadvantages *vis a vis* the RBOCs stem from causes beyond Lexcom's

management's control, such as geography and demography. In terms of total operating expenses per 100 customers, the RBOC advantage over Lexcom is more than 11%.¹⁴

It is important to understand that these major cost advantages have nothing to do with the quality of any particular ILEC's management. Rather, they stem solely from geography and demography of the areas served by an individual ILEC. The RBOCs and other larger ILECs tend to serve the large metropolitan areas with high concentrations of customers, while small and rural ILECs serve more remote areas with fewer customers and longer distances between customers.

In view of these incontrovertible facts, Lexcom submits that there is a material difference in the manner in which rural ILECs incur costs from the large, price cap ILECs. The FCC's major premise supporting access charge reform, as proposed, is false. Because the FCC's *Notice* ignores customer density, the single most important factor affecting an ILEC's costs, the FCC should not proceed to adopt access charge reform as proposed in the *Notice*. To do so would be arbitrary and capricious, as well as unfair to rural ILECs and their customers.

¹⁴ The RBOC cost advantage on total operating expenses is evidence that the RBOCs have considerable economies of scale in general and administrative functions. Also, it shows the cost disadvantage for rural ILECs tends to be relatively fixed.

**THE FCC'S PROPOSED REFORM OF ACCESS CHARGES WILL VIOLATE
SECTION 254(b) OF THE TELECOMMUNICATIONS ACT OF 1996**

A. Access Charge Reform Must not Result in Substantial Price Increases for Customers if It is to Comply with the Law

In view of these higher costs incurred by rural ILECs because of their low customer density, one might expect that rural customers would pay very high rates for telephone service. Moreover, because of the need to charge higher prices to recover the higher costs of providing telephone service in rural areas, telephone service could have become unaffordable for many people in rural parts of the United States. The American people and their representatives in Congress, however, found this result to be unacceptable. In passing the Telecommunications Act of 1996, Congress mandated that telephone service be widely available at "just, reasonable, and affordable rates."¹⁵ While Lexcom offers no opinion herein as to what is a "just, reasonable, and affordable rate" *per se*, Lexcom submits that Congress did not intend that the Telecommunications Act of 1996 would result in significant rate increases for residential and small business customers, anywhere in the United States. No Senator or Representative voted for this new law in order to raise local service rates for residential and small business customers, in an effort to boost the profitability of the largest IXC's.¹⁶

¹⁵ See 47 U.S.C. §254(b).

¹⁶ Lexcom finds it interesting that most of the facility-based local competition in the local telephone market seems to be coming from smaller carriers, rather than from the largest IXC's that have national brand recognition. Perhaps, some of these large IXC's are more interested in protecting their existing long distance revenues from competition than they are in entering the local exchange market as new competitors.

Moreover, the FCC has a duty to ensure that local rates for rural customers are “reasonably comparable to rates charged . . . in urban areas.”¹⁷ Hence, the FCC must view access charge reform within parameters that prevents significant local rate increases for rural customers. Any other result contravenes Section 254(b).¹⁸

**B. Access Charge Reform, as Proposed by the FCC,
Will Result in Large Local Rate Increases**

In the *Access Reform Order*,¹⁹ the FCC allowed price cap ILECs to increase their subscriber line charges (“SLCs”), for non-primary residential lines²⁰ and multi-line business customers, to a level that recovers a price cap ILEC’s average, per-line, interstate-allocated, common line costs. These price increases were made subject to an inflation-adjusted cap of \$9.00 per line. The increase for residential customers was limited to \$1.50 (with a cap of \$5.00 per month) as of January 1, 1998, with annual increases thereafter of \$1.00 per line, plus inflation, until the \$9.00 cap is reached.²¹

¹⁷ 47 U.S.C. §254(b)(3).

¹⁸ Lexcom is not suggesting herein that Section 254(b) prohibits any local rate increase in all circumstances or that local rates in rural areas must be no higher than local rates in urban areas in all circumstances. The Telecommunications Act of 1996 is not a straight jacket for telecommunications carriers or regulators. However, the Act does put a flexible lid on the prices that carriers can charge and regulators can approve for local service, including local service in rural areas. Therefore, the FCC cannot lawfully sacrifice rural local service subscribers in order to create the lowest possible rates for IXCs. Rather, access charge reform must be consistent with preserving affordable local telephone service in rural America.

¹⁹ *Access Reform Order*, 12 FCC Rcd at 16010-16011.

²⁰ For those residential customers having more than one access line, the additional lines are considered to be non-primary.

²¹ *Access Reform Order*, 12 FCC Rcd at 16014.

Any common line costs, which are not recovered by these higher end user charges, are to be recovered from carriers. However, cost recovery is shifted from the usage-sensitive carrier common line charge to a flat-rated PICC, which is assessed on the end-user customer's presubscribed IXC.²² The PICC is also subject to a phased-in transition, beginning January 1, 1998, for price cap ILECs, at 53¢ per month, per line for primary-line residential and single-line business customers. The PICC is then to be increased each year by 50¢ per month until it is equal to one-twelfth of the annual common line and residual interconnection charge revenues divided by the average number of access lines, less the maximum amount of primary residential and single-line business SLC revenues.²³

Price cap ILECs can recover any revenue shortfall, which is not recovered through the mechanisms discussed above, through PICCs on non-primary residential and multi-line business lines that will increase by a maximum of \$1.00 and \$1.50 per year, respectively, until a carrier recovers its total common line revenues through a combination of PICCs and SLCs.²⁴ For the first year, the PICC ceiling will be \$1.50 per month for non-primary residential and \$2.75 per month for multi-line business customers. Of course, a price cap ILEC retains its originating carrier common line ("CCL") charge and, if necessary, its residual TIC until the SLCs and PICCs recover all associated costs.²⁵ Once a price cap ILEC recovers all of its common line costs in

²² *Id.* at 16018-16026.

²³ *Id.* at 16020-16021.

²⁴ *Id.* at 16023.

²⁵ The elimination of the TIC, which applies to all minutes of use, would likely result in a significantly higher carrier common line charge on originating traffic for some rate-of-return ILECs. Since originating access service is easier to bypass than terminating access, one must question the premise whether access charge reform, as proposed in the *Notice*, is designed to help small ILECs stay competitive in the access service market.

flat-rated PICCs and SLCs, price cap ILECs must begin reducing their PICCs on multi-line business customers until that PICC equals the PICCs for non-primary residential customers. (The source of the funding for the future PICC rate reductions for customers with multiple lines is increases in the PICCs for primary residential and single-line business customers.) Once the PICCs for non-primary residential and multi-line business customers are equal, the price cap ILECs must begin reducing each charge equally, until the combined SLCs and PICCs for primary residential and single-line business customers recover their full common line costs. These same complex rules would be imposed on small rate-of-return ILECs if the proposals in the *Notice* were adopted.

1. Large Increases in the Subscriber Line Charge Will Harm Rural Customers

It is quite possible, as the FCC recognized,²⁶ that SLCs for small ILECs would quickly reach the \$9.00 per month cap, without elimination of the carrier common line charge or the TIC. Lexcom submits that, at some point, continued increases to SLCs in rural areas would result in unlawful, non-comparable rates, when compared to rates in urban areas.

A good example can be seen in the area of SLCs for multi-line business customers. One would expect that most, if not all, rate-of-return ILECs will have \$9.00 SLC rates for multi-line business customers, under access charge reform as proposed in the *Notice*. Yet, several price cap ILECs have much lower SLC rates. Ameritech has a \$5.79 rate in Illinois and a \$5.80 rate in

²⁶ *Notice* at ¶37.

Indiana.²⁷ Cincinnati Bell's rate is \$6.44.²⁸ Even US WEST, which has significantly lower customer density than other RBOCs, has multi-line business SLCs below \$9.00 in several states, including Utah (\$8.69) and North Dakota (\$8.90).²⁹ When coupled with PICC charges, which are being passed along by IXC's to both business and residential end users, and possible local rate increases due to limited federal universal service support (a 25%-75% federal-state split), these SLC increases, especially as they may apply to residential customers, would violate Section 254(b).

Since Lexcom is a member of the National Exchange Carrier Association's ("NECA") common line pool, it is somewhat difficult to provide the exact financial impact of the kind of access charge reform proposed in the *Notice* on Lexcom and its customers. Lexcom assumes that, as a NECA common line pool member, Lexcom will recover its interstate common line revenue requirement from the pool, Lexcom's end user customers will pay SLC rates at the cap, and primary IXC's serving Lexcom's end users will pay PICC rates at the cap, as well. Also, Lexcom assumes that these IXC's will recover 100% of the PICC cost from both business and residential end users.³⁰ Table 2 estimates of the impact of the kind of access charge reform proposed in the *Notice* on Lexcom's common line revenue requirement and end user customers.

²⁷ Ameritech Tariff F.C.C. No. 2, 22nd rev. pages 76 and 77 (eff. Jan. 1, 1998).

²⁸ Cincinnati Bell Tariff F.C.C. No. 35, 30th rev. page 106 (eff. Jan. 1, 1998).

²⁹ US WEST Tariff F.C.C. No. 5, 5th rev. page 4-11 (eff. Jan. 1, 1998).

³⁰ Given the variant behavior of many IXC's with respect to their pass through to end user customers of the fees charged to pay for Internet access for schools, libraries and rural health care providers, it would not be surprising for most of Lexcom's end user customers to be billed the full NECA PICC rate by their IXC's. Accordingly, Lexcom's calculation of the impact of access charge reform, as proposed by the FCC, assumes that end user customers will be billed the full NECA PICC by their IXC.

Table 2

ITEM	INTERSTATE	INTRASTATE
1997 common line revenue requirement	3,930,797	5,118,423
Estimated increase due to access reform based on a USTA study	24%	24%
Adjusted common line revenue requirement	4,874,188	6,346,845
Current SLC revenues	1,486,382	0
Remaining common line revenue requirement	3,387,806	6,346,845
<u>SLC increases</u>		
Secondary residence lines	30,724	0
Multi-line business	134,991	0
Total	165,715	0
<u>PICCs/State charges</u>		
Primary residence lines	141,258	1,074,096
Secondary residence lines	30,724	133,136
Single line business	3,130	23,802
Multi-line business	247,484	922,442
Total	422,597	2,153,476
Total SLC, PICCs (and state charges)	588,312	2,153,476
Remaining common line revenue requirement	2,799,494	4,193,369
Remaining common line revenue requirement per line, per month	7.31	10.95
Total common line revenue requirement per line, per month	12.73	16.58

Sources: Lexcom's Part 32 accounts. Access line quantities developed from Lexcom data. N.B. The Intrastate calculations assume that the North Carolina Utilities Commission mirrors the FCC's rules on PICCs and the carrier common line charge.

Access charge reform, as proposed by the FCC, will result in significant increases in local rates from increased SLCs, a full pass through of the PICCs, and intrastate rate increases. Yet, a major common line revenue requirement will remain for Lexcom. That revenue requirement going forward either must be passed along to end user customers in the form of higher local rates, or it would remain on the usage sensitive carrier common line charge, with a disproportionate amount to be collected on originating access. Neither alternative is in the best interests of Lexcom or its end user customers.

Unless the FCC can ensure that access charge reform will keep rates for local service at levels that are comparable to those in urban areas and affordable to customers in rural areas, the FCC may not proceed with the kind of access charge reform that it has proposed and still comply with Section 254. To force local rates to be increased in the name of so-called access charge reform flies in the face of clear congressional intent.

2. PICCs Unfairly Burden End User Customers and Cause Discrimination Among IXC's

PICC's are designed to recover a portion of the non-traffic sensitive, common line costs in a flat-rated charge to the end user's primary interexchange carrier. PICC's seem, at first blush, to be sound cost-causative ratemaking. However, PICC's have some serious flaws. If the FCC removes all interstate common line costs from usage sensitive recovery, non-primary IXC's will not contribute to common line cost recovery. When a customer places a long distance call through a non-presubscribed carrier, by dialing a carrier access code (101XXXX), such an IXC will not contribute any support to the common line with a pure PICC approach. Similarly, if the carrier common line charge is removed from terminating traffic, IXC's that use the local loop more for terminating traffic than for originating traffic will contribute less than other IXC's to support the common line. That result would discriminate in favor of certain IXC's and require some IXC's to subsidize the use of the common lines by other IXC's. Lexcom submits that nothing in the record justifies this blatant discrimination among IXC's.

Further, a failure to charge those IXC's that terminate traffic on an ILEC's local exchange plant is not economically sound. IXC's receive value in the market from their ability to reach virtually every person in America through the local exchange networks. How many customers would choose an IXC that could reach only twenty of North Carolina's 100 counties, for example? While most end user customers may never call Tyro, NC (pop. 400), few end users would be happy with an IXC that told them they could not call Tyro, North Carolina. Customers, both residential and business, demand that their IXC be able to terminate calls anywhere in the United States. Therefore, all IXC's need the ability to terminate calls in Tyro, NC simply to be competitive with other IXC's. Therefore, Lexcom, which serves Tyro, should be allowed to charge IXC's that want the ability to terminate interstate calls a terminating rate that recovers Lexcom's cost in providing those common lines. Rural ILECs should not be forced to provide economic value to those IXC's for nothing in return.

Also, the recovery of common line and TIC-related costs on a flat-rated basis isolates IXC's from the operation of market forces. The PICC has become another tax-equivalent that is simply passed to consumers as another line item on their bills. PICCs have become a guaranteed cost recovery plan for IXC's, especially since they can easily pass along the costs to low-volume users. It is more difficult for IXC's to pass common line costs to end users when such costs are recovered by ILECs through a per-minute CCL charge because of market competition. High volume long distance users have enough purchasing power to resist paying long distance rates that cover the CCL charge on a dollar-for-dollar basis. Toll discount plans are available to average users. Dial-around carriers are offering 10¢ per-minute rates, without any minimum

monthly fee. Also, many telephone subscribers make few long distance calls and, therefore, do not help IXCs recoup all of the CCL charges paid to ILECs. Adoption of access charge rules that require rural ILECs to charge PICCs is unsound and should not be adopted.

ACCESS CHARGE REFORM AS PROPOSED
HAS OTHER SERIOUS FLAWS

A. Shifting Local Loop Cost Recovery to Originating Access Will Make Rate-of-Return ILECs Less Competitive

The FCC alleges that one of the motivating principles behind further access charge reform for rate-of-return ILECs is a desire to allow these ILECs to be more competitive. Yet, the operation of the FCC's proposal will have the opposite effect. Since most small ILECs tend to have higher costs and fewer economies of scale than price cap ILECs, it is more likely that SLC and PICC increases will not recover all of a small ILEC's common line and TIC-related costs. Therefore, rate-of-return ILECs are still likely to need to recover those costs on a usage-sensitive basis. In this event, the FCC's proposal places the bulk of this usage sensitive cost recovery on originating minutes of use. Yet, originating access is more competitive than terminating access. Many small ILECs have one or two larger-volume business, education or government customers that are quite susceptible to "cream skimming" competition from other carriers. A competitor could simply install a single dedicated transport facility to the large customer's premises and capture 100% of the originating access traffic. Deprived of the ability to compete for this traffic, the rural ILEC would be forced to raise rates to other customers -- hardly the intent of Congress.

Therefore, the FCC's plan, if placed into effect, is likely to make many rate-of-return ILECs more vulnerable to competition than they are today.

B. Access Charge Reform as Proposed Creates Excessive Burdens

Access charge reform as proposed by the FCC would create new burdens for small ILECs. One such new burden is the sheer complexity of the new access system. It would introduce many new rate elements, all of which compound an ILEC's ordering and billing systems. Compared to most competitive industries, telephony's processes are already too complex and expensive. Yet the additional regulation that the FCC has proposed in the name of access charge reform simply adds more complexity and costs. For example, separating both line-side and trunk side ports from the local switching rate element requires modifications to several operating systems and more detailed tracking and billing. Lexcom questions what value this added economic precision provides in excess of the costs of providing the precision. The FCC's proposed pricing changes for multiplexers and the proposal to charge a separate SS7 call set-up rate also add complexity.³¹

The FCC should be looking for ways to allow small ILECs to reduce their administrative costs, not to increase them. Also, the FCC calls for cost studies and more data in order to justify access charge reform prices. Rural ILECs simply do not have the staffing levels to conduct

³¹ While all consumers like choices, few consumers want complexity. Automotive manufacturers have tried pricing along the lines proposed by the FCC in which every single option or variation has its own price. Under this pricing system a car buyer can (in theory) pay only for the exact vehicle chosen. However, many consumers dislike this approach, preferring ones that offer consumers a few basic packages with little add-on pricing. Much of the market success of automobile makes, such as Honda and Saturn, stem from their streamlined pricing that meets customer desires.